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**ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman

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May 27, 2010

Mr. Don Robinson  
President and COO  
Arizona Public Service  
400 No. Fifth Street  
Phoenix, AZ 85004

**Re: Funding shortfalls in Arizona Public Service Company's Renewable Energy Incentive Program**

Dear Mr. Robinson:

In several meetings with APS officials, I have stated my continued concern regarding funding shortfalls in the 2010 renewable energy incentive program. As you are aware, the Commission acted to address this funding deficiency last month when we reduced the residential incentive from \$3 per watt to \$1.95 per watt and parceled the funding into three distinct tranches for the pendency of 2010. However, it has become clear that these actions have not sufficiently maintained continuity in the residential program. Indeed, several third-party solar installers have expressed their own worries to me that the ongoing funding gaps could severely impact their operations, which could in turn impair APS' ability to comply with Commission renewable energy requirements in the future.

I believe it is in APS' and Arizona's best interest to work with third party solar installers to ensure a vibrant market, as this participation accelerates downward price pressures benefiting customers and APS alike. Accordingly, I am writing today to request that APS closely examine its budget projections and current commitments for its residential solar program and look for opportunities to address the residential funding shortfalls. Specifically, I would like APS to detail in a letter to me: 1) its forecast of cancellation rates for residential systems based on previous year commitments, 2) identify any 2009 uncommitted funds which can be used for incentives, and 3) identify any cash commitments of performance based incentive reservations in 2010 that are unlikely to be paid this year. I believe any uncommitted funds should be cycled into current year incentives and would like the Company to address this possibility.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Mayes", is written over a horizontal line.

Kris Mayes  
Chairman

Cc: Commissioner Gary Pierce  
Commissioner Paul Newman  
Commissioner Sandra Kennedy  
Commissioner Bob Stump  
Ernest Johnson  
Steve Olea  
Janice Alward  
Rebecca Wilder